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## AN APPRAISAL OF CARVER'S *ECONOMICS*<sup>\*</sup>

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Professor Carver<sup>\*</sup> is a welcome addition to the steadily increasing number of economic students who are dissatisfied with the neo-classical limitations that have been imposed upon economic theory. He has joined the "welfare crowd," his volume being dedicated "to all those who care to see their country grow great and strong." Viewing with high scorn the common doctrine that the economist should concern himself only with the means of satisfying desires, without considering the possible detrimental effects to the race, he accordingly deplors the lack of attention that has been given to consumption by writers on political economy and remarks that "a few students are beginning to discover that consumption is more important than production, exchange and distribution—possibly more important than all three combined" (p. 11). "Consumption reacts powerfully upon all other departments, particularly upon distribution" (p. 455).

This emphasis upon consumption and upon the concept of welfare meets with the reviewer's unqualified indorsement. I have always failed to understand why economists should lay such emphasis upon "long-run" considerations and then persist in counting all things as wealth so long as they momentarily satisfy individual cravings, regardless of their ultimate economic and social consequences. The narrow definition which makes whiskey wealth because it has utility has not tended to commend economic analysis to the favorable consideration of those whose interests lie in the field of public welfare. There could, of course, be little objection to the classical definition of wealth if the economist were satisfied to admit at the conclusion of his analysis that it had little bearing on problems of long-run economic development or on matters of practical statesmanship. But this he is seldom content to do. He fancies that, like Adam Smith, he is really concerned

<sup>\*</sup>Thomas Nixon Carver, *Principles of Political Economy*. Ginn & Co., 1919. Copyright by the author. Pp. ix+588, \$1.96.

with the wealth of nations. Professor Carver's square stand against the doctrine that utility is synonymous with wealth should do much to shift the whole point of view of economic analysis.

While Professor Carver has formally adopted the concept of social welfare in his discussion of consumption, interestingly enough he remains elsewhere a good individualistic, neo-classical theorist. The purpose of this review is to indicate some of the limitations to the theory that finds exposition in Carver's general analysis, as viewed from the standpoint of the welfare concept.

When the author espoused the welfare concept he fell heir to a heavy responsibility, that of squaring his theory of valuation with the requirements of his new standard of social utility. It is one thing to write a treatise on economics so long as one is willing to accept the arbitrament of the market as a final determinant in economic affairs, but when one takes as his guiding principle the long-run strength of the nation it becomes necessary to subject the existing economic organization to the closest scrutiny. One would accordingly expect that the author would have constantly in mind the fundamental consideration whether and to what extent the general system of wealth production and distribution, as organized by pecuniary market conditions, promotes the general welfare, and whether and in what way this economic organization may be modified and improved to meet the ever-changing conditions of life in a complex world.

But throughout his general analysis of value and distribution, Professor Carver rarely has these considerations in mind. There is no searching analysis of the adequacy of the present economic system to promote the ends desired. He accepts, virtually without question, market evaluation as a satisfactory guide in the directing of human energy. "To set one's self up as a moral censor, to pass judgment on the desires of the people . . . has generally been regarded as undemocratic" (p. 276). "The interests of the public are expressed quite as accurately on the market and through the price list as through the ballot box and the statute books" (p. 572). The pursuit of self-interest—except where it injures others, and this of course the law should prevent—promotes the public weal, because

the individual "must seek his self-interest by useful rather than injurious acts" (p. 36).

Do market price and the free play of self-interest, in truth, direct our social energy in *socially* useful ways? Do they insure that the nation will grow great and strong? When Professor Carver says that self-interest leads a man to do useful things, he merely means by useful that which pays. Whiskey is useful (has utility) and so are all the luxuries which the author denounces in the chapter on consumption as "little short of a crime." The truth is that market price cannot be a satisfactory guide to production where there is a great disparity in incomes. Carver assumes that through the price mechanism society induces the production of those things which it desires, even though it may not always fully realize what is for its own good in the long run. But the price system does not necessarily induce the production of the things that are *socially* desired. It merely induces the production of the things which are profitable; and these are determined, not by the desires of society as a whole, but by the relative purchasing power of different income groups. As the disparity of incomes among different classes increases, moreover, we stand to have a steadily increasing proportion of our energy diverted from the production of necessities. The goal of market price is not that of "necessities for all before luxuries for any." The profit system often promotes a diversion of energy from the production of necessities to the production of luxuries and of goods that are positively deleterious. The profit-making system also leads to the rapid and utterly visionless exploitation of natural resources. The profit-making system is, in fact, essentially one where a relatively short-run viewpoint prevails; but the promotion of national welfare requires essentially a long-run point of view.

In his discussion of consumption Professor Carver urges the necessity of universal and relentless saving, at all times and under all circumstances. He urges that we should lead the "austere life," foregoing everything in the way of consumptive goods that is not required for efficiency. The greatness and strength of the nation, or its competing power in international economics, are measured by the excess of production over consumption. "Here is a real

Armageddon, the battle field of the nations. . . . a field where every nation must sooner or later be brought to the test and made to battle for its very existence" (p. 499). This is not the place to discuss in any detail the author's analysis of thrift. It is important to indicate, however, that it is in essential conflict with his general theory of value and distribution. The author's method of securing high wages, and of eradicating poverty, is to decrease the supply of unskilled labor through inducing laborers to acquire high standards of living—that is to say, to desire large consumption and a life that is anything but austere (p. 395). It would seem that the author must either forego high wages or be content with a population the masses of which have foresworn the life of simplicity and frugality.

Professor Carver's interest theory is a functional one. "The function of a high rate of interest is to call forth a larger supply of capital, for which interest is paid. . . . Larger savings may be secured either by compulsion (that is by taking a part of the social income by authority and setting it aside) or by attraction (that is by offering a reward for savings). There is no other possible way that has been suggested, even on paper, of accomplishing this necessary result" (p. 437). And "the productivity of capital decreases, other things being equal, as its quantity increases" (p. 426). Thus, if, as a result of saving, the supply of capital is rapidly increased, its marginal productivity will decline to a point below which the reward for marginal saving will be insufficient to induce further saving. It is thus automatically checked. But in his preachments on thrift, the author entirely ignores this automatic process, and forgets that a personal reward is indispensable to saving. Only in case people could be induced to save indefinitely without thought of interest, by the realization that a hundred years hence their nation would in consequence prove strong for the fray, could we develop a race that would practice unlimited economy. The author shows us in his interest theory that this is an impossibility.

Carver's theory of profits is also functional. Where a large number of enterprises are needed, the way to get them started is "to offer a special inducement to private individuals to undertake the new enterprises voluntarily. This is usually done by the offer, on the open market, of high prices for the products of the

enterprise" (p. 443). Thus, even if individuals could be induced to save without interest an indefinite volume of funds for investment, the entrepreneurs would still find no inducement for creating additional capital goods, because a nation of universal savers would not be offering high prices for the products of additional industry.

These are all cases of compartment thinking of the sort that characterizes so much of our economic analysis. One thing at a time is undoubtedly necessary for purposes of exposition; hence the division of economics into the fields of consumption, production, exchange, and distribution; hence the eternal "other things remaining equal"; hence the largely isolated analysis of the so-called applied fields of economic inquiry. But a synthetic analysis of the economic system can be adequate only in so far as it envisages the economic organization as a whole. Professor Carver's weakness in this connection is by no means unique. He merely chances to be in especial difficulties because, having acquired a new point of view—that of the welfare of nations—he has as yet failed to appreciate what the acceptance of this point of view requires in the way of thorough overhauling of his former system of political economy; and, in turn, in what ways economic laws which are rooted in a system of individualistic pecuniary competition may prevent his new-found theories of welfare from making the nation grow great and strong.

Because of the criticism that has been made by others of Professor Carver's "balanced" economic system only a brief reference to it is permissible here. The author's solution of the labor problem lies in a "well-balanced" population.

If there are no more spinners than are needed to supply yarn for the weavers, no more of both than are required to combine satisfactorily with other groups, no more unskilled laborers than are necessary to work in combination with the skilled laborers, no more of both than are necessary to work in combination with salesmen, accountants, managers, etc., the population is well-balanced (p. 408). When this balance is attained, no group will be at a disadvantage in the bargaining process; and the labor problem will thus virtually be solved.

The reviewer is inclined to believe that with students of the labor problem this sort of analysis will meet with more of condemnation than commendation. Granted that the existing industrial system

tended to promote such a balanced population, it would hardly solve the labor problem; for the labor problem is no longer merely a wages question, nor a matter of bargaining position, either individually or collectively. It is also a matter of representation in the management, direction, and, yes, even in the risks of industry. The issue has become one of democratic organization and control.

The author's individualistic philosophy finds repeated expression. "The prosperity and power of the nation will be assured" if the government represses destructive and deceptive methods and leaves individual initiative free to seek individual interests" (p. 53). "Under a liberalistic system anyone who can handle a farm successfully can become a farm manager, and ultimately a farm owner, as thousands have already done." "Granted ability and perseverance a farm hand can *always* [italics mine] become a farm owner" (p. 573). Carver not only applies this pioneer economics to present-day agriculture; by implication he applies it to industry generally. He would permit state interference only in instances presumably rare, when an individual's acts prove injurious to others. Under the simple conditions of English life in the seventeenth and eighteenth centuries, and under the pioneer conditions of only a few decades ago in the United States, an individual, if ordinarily law-abiding, seldom performed an act that injured or directly affected others. But in the complex industrial world of today interdependency is perhaps the most striking characteristic. It is the very complexity and interdependency of modern industrial activity that has forced *laissez faire* more and more into the background and compelled an ever-widening sphere of governmental activity. Since the author's entire system of thought is rooted in a social order that has largely ceased to exist, he very naturally continues to believe that very little governmental intervention is ever necessary.

To Carver's mind, indeed, there is something singularly inimical to freedom in state control, that is, beyond the mere policing function. "In the case of a despotism a despot exercises compulsion over the individual; in the case of a democracy it is the mass that exercises the compulsion" (p. 573). "Majority rule is thus apparently an infringement upon inalienable rights, such as

men were supposed to possess in the eighteenth century. Government ownership is also inimical to freedom; for some individuals would then be subjected to the necessity of becoming government employees" (p. 572). It is apparent, is it not, that one is always free when he is working for a private employer?

In short, despite his advocacy of social welfare, the author has not yet introduced into his general economic theory a social point of view. In a world that has become organically collectivistic, Carver remains a primitive individualist. He has not yet seen, with Roscoe Pound, that "the juristic thinking of the immediate past started from the premise that the object of the law was to secure individual interests, and knew of social interests only as the individual interests of the state or sovereign," as detached entities, and that "the juristic thinking of the present must start from the proposition that individual interests are to be secured by law because and to the extent that they are social interests. . . . While individual interests are one thing and social interests another, the law, which is a social institution, really secures individual interest because of a social interest in so doing."<sup>1</sup>

Since Professor Carver's philosophy still runs in terms of pioneer individualism, it is not surprising that he should be on the whole extremely well satisfied with the economic system. He regards it as the embodiment of the accumulated wisdom of the ages, and writes that anyone who thinks he can improve it by tampering merely reveals his colossal ignorance. He even goes so far as to say that there are no evils in the system of competitive production. Interestingly enough, Professor Carver's conclusions are presented to the public at the precise moment when the economic organization, which resulted from the industrial revolution and the development of the machine technique, has reached the parting of the ways—when it is literally on trial for its existence. One need not turn to Russia for illustration. When so conservative a liberal as the premier of England openly advises British labor to be audacious in its social views and secure a really new world, one in which the control of industry shall be democratized and in which the profit-

<sup>1</sup> See "Social Problems and the Courts," in the *American Journal of Sociology*, XXVIII (1912), 331-41.



making system shall not be the final determinant of the extent to which and the ways in which social resources shall be utilized, it would seem to be high time that economic thought took cognizance of the world of present-day reality.

The reviewer recognizes that in the foregoing paragraphs he has been repeatedly laying himself open to the grave charge of radicalism, of being among those who would like to see the present economic system summarily overhauled. Such an inference, I feel impelled to say, would be quite unwarranted, for my intellectual conclusions as to the possibility of securing, through revolutionary processes, a better social order than the present one, are of a highly conservative nature. But I do not believe it is either scientific or politic for the economist to make *ex cathedra* pronouncements that the present system is on the whole remarkably efficient, that indeed it cannot fail to be the best possible system since it is the result of an age-long process of trial and error. We have heard so much of the trial-and-error method of social progress that it may not be amiss to consider it briefly. Has the method of trial and error been directed toward Carver's goal—that of a well-balanced and powerful nation?

So far as the mechanism of competitive production is concerned, the trial-and-error process has been directed toward making the largest possible gains to private individuals over short spaces of time, by ministering to individual wants as expressed in market prices. It has not primarily been directed toward long-run national welfare. Can anyone seriously contend, for instance, that the profound social changes that were wrought by the industrial revolution and machine industry were a result of conscious human direction with a view to promoting an improved social order?

In so far as we have consciously attempted to control and shape social and industrial development, it has largely been done through the agency of common and statute law. The court decisions of our time, however, while destined to function in a collectivistic industrial system, are still largely rendered by judges who are looking over their shoulders at the guideposts of a pre-industrial individualistic era. Our leading law schools are just now awakening

to the need of developing social jurists, as well as practitioners in the pathways of tradition, to the end that law may be made relevant to the conditions of the industrial age in which we live. Carver himself apparently believes that the judicial system is in need of thoroughgoing reform, for he says, "Many discriminating persons are beginning to believe that the judicial branch of our government . . . is less efficient even than the legislative or the executive" (p. 175).

In the case of statute law it can hardly be said that our legislation has universally been directed toward social ends; a considerable portion of it, as everyone knows, has resulted from the operation of private interests which were using legislation to promote individual rather than national ends. Carver says, "Government affairs are controlled by politicians who are no more interested in the people than are the trust magnates themselves!" Prices of trust-made goods are fixed, where there is government control, "by the joint action of the politicians and the trust operators" (pp. 176-77). Economists and statesmen with a social point of view have, on the whole, played a relatively unimportant part in shaping the industrial and social structure of the nation.<sup>1</sup> On the contrary, the judiciary, with its face to the past, and the politicians and their business associates, with their eyes on the gilded present and future, have played a dominant rôle in the evolution of our present industrial order.

In the light of these considerations it does not seem to the reviewer to be either radical or dangerous to challenge the adequacy of the present order to promote the greatest good to the greatest number. And, especially, does it appear to be quite unnecessary to eulogize the existing economic system as the epitome of social wisdom, or to urge that it should not be tampered with by fallible human beings. Even if economic teachers should succeed in inculcating in that small fraction of the American electorate who enjoy the "advantage" of college instruction in economics a thoroughgoing admiration of the economic organization of our time, together with a wholesome fear of dangerous reforms, we shall not thereby prevent tampering with the system. There will only be

<sup>1</sup>Some reservation is perhaps necessary for a certain period in English history.

the greater likelihood of its being tampered with disastrously by those who are ill-acquainted with the working of economic forces and who have little understanding of the difficult problems of social organization and control.

In contrast with the view that the purpose of a general treatise in political economy designed for use in an introductory course is to set forth eternal verities and lead the student to believe that the present industrial order is about all that human wisdom could hope to evolve, may be submitted the view that the primary purpose should be to reveal the forces that have governed the growth and development of the present economic system, to disclose the functions of the many different institutions, private and social, that are associated with the processes of production, and, as well as may be, to appraise from the standpoint of national welfare, the efficiency with which the various parts, as well as the whole, perform the tasks assigned. If society is to be made to serve the best interests of nations and peoples, we shall have to study the system as it is, and endeavor to reveal its weaknesses, as well as its points of strength, to the end that its glaring defects may be intelligently remedied. To do anything less at this period of world-history is to foster economic and social retrogression.

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